
Microfinance, A Light of Hope to Prevent Darkness of Poverty

Muhammad Naeem Shahid*

Assistant Professor, Govt. College University Faisalabad,
Chiniot Campus, Pakistan
naeemtuf@yahoo.com
*Corresponding author

Mirza Muhammad Imran Sharif

Branch Manager, HBL Faisalabad, Pakistan
Imransharif381@gmail.com

Mahreen Bashir

Lecturer, Govt. College University Faisalabad,
Chiniot Campus, Pakistan
mahreenbashir9@gmail.com

Yumna Javed

Lecturer, Govt. College University Faisalabad,
Chiniot Campus, Pakistan
yumnaad339@gmail.com

Muhammad Asim Sarwar

Lecturer, School of Management Studies,
The University of Faisalabad
asim.sarwar@tuf.edu.pk

Abstract

The motivation behind this study is to examine the overall impression of rural microfinance on living standards of poverty-stricken people related to agri-business located in Jaranwala, District Faisalabad Pakistan. For the purpose of selection of respondent, non-probability sampling is opted and 50 structured interviews are conducted through a self-designed questionnaire. Logistics Regression analysis is applied

to test the hypotheses. The results manifested that microfinance plays an essential role in poverty alleviation and can augment the standards of life. This study is limited to one rural area of a district due to time and resources limitations. To get a broader view of the impact of rural microfinance, it can be further investigated either on the provincial level or the country level. The findings of this study shed light on the need for rural microfinance programs in less developed areas of the country to play a dynamic role in the overall country's development initiatives. This study will also help in formulating policies for the development of rural populations so they can become active participants in the overall country's economy. This study will also help in formulating policies for the development of rural populations so they can become active participants in the overall country's economy. The paper has identified the need to study how microfinance helps poor and contribute towards economic development. The findings are valuable for national and international microfinance companies about the spread of credit facilities and their impact on economic development.

Key Words: Rural Credit; Micro-finance; Poverty alleviation; Agriculture Income; Women Empowerment.

Reference to this paper should be made as follows: Shahid, M. N., Sharif, M. M. I., Bashir, M., Javed, Y., Sarwar, M.A. (2020) 'Microfinance, A Light of Hope to Prevent Darkness of Poverty', *Asia Pacific Journal of Emerging Markets*, Vol. 4, No. 2, pp. 1–14.

Biographical notes: Muhammad Naeem Shahid is an Assistant Professor of Finance at Institute of Arts and Sciences, Govt. College University Faisalabad, Chiniot Campus, Pakistan. He received his PhD in Finance from Bahria University Islamabad, Pakistan. His research and teaching interests are in the areas of behavior finance and corporate finance.

Mirza Muhammad Imran Sharif is a senior branch Manager at Habib Bank Limited (HBL) Faisalabad, Pakistan. He received his Master's in Business Administration from University of Central Punjab Lahore, Pakistan in 2008 and in Finance from The University of Faisalabad, Pakistan in 2015. He has Banking experience of 14 years at HBL, FINCA Bank, MF Bank and UBL in the field of general banking, banking operations and Microfinance banking. His research interests

are in the areas of micro finance and its impact on poverty reduction, quality management of microfinance, change in microfinance markets, leadership roles in microfinance organizations and strategic management.

Ms Mahreen Bashir is a Lecturer of Finance at Institute of Arts and Sciences, Govt. College University Faisalabad, Chiniot Campus, Pakistan. She did her MS in Banking and Finance from University of Agriculture, Faisalabad, Pakistan. Her research and teaching interests are in the areas of behavior finance and banking sector.

Ms. Yumna javed is a lecturer of English Literature at Government College University, Chiniot Campus. She has done her Mphil in English Literature from GCUF and her specialty is in highlighting eco-critical issues in the contemporary societies.

Muhammad Asim Sarwar is a Lecturer in School of Management Studies, The University of Faisalabad. He has vast research experience in pricing strategies on consumer behavior. He is famous for his expertise in area of pricing strategies. Moreover he is a renowned teacher and marketing expert. His research on sports marketing is very popular now a day. Furthermore, his research areas include pricing strategies, tourism marketing and digital marketing.

1. Introduction

Monetary services like credit, savings, insurance, and remittances which are designed for the poor and poverty-stricken people is called microfinance. If these activities are specially designed for rural areas, will-called “rural finance “or “rural credit” that is provided to deserving and poor people of rural areas for the aim of social empowerment, economic growth, and poverty mitigation (Gateway, 2018). The remarkable tool of Rural Credit has enabled very poor farmers around the world to overcome poverty (Mofolo, 2018). The rural credit is dependent on poor farmer’s conventional skills and expertise for enhancement of agriculture productivities and poverty reduction in key segments of Pakistan’s economy. Skill buildings programs particularly for women, enabling them with confidence and supporting toward their own families in respect of good health

care, improving lifestyle by the improvement in education and overall society with the help of micro-financing (Abdullah, 2015).

Rural Credit is the procurement of an extensive variety of monetary administrations like reserve funds, credit, installments, and protection for poor individuals, micro-undertaking, little agriculturists and farming transforming units. According to (Andrews, 2006) the good knowledge about rural finance helps to elucidate the income strategies of the rural poor. This group of poor people spends the uppermost percentage of their income on foodstuff, usually more than 60% and sometimes even to 90%. In such situations, any plummet in their earnings, or any extra unexpected disbursement like funeral or health expenditures, have immediate consequences for their wellbeing until any savings or loans can be accessed. Therefore, such types of financial aids are a fundamental part of the living system of the rural poor. Micro-credit strategies are specially designed to help poor people to overcome any drop in income or any extra expenditure (Samer et al. 2015).

According to World Poverty Statistics (2017), around 20 percent of the total world population is still living in serious poverty head shortage of whatever US \$ 1 every day, and most of them are in rural agriculture territories (Rome et al., 2001). Numerous emerging countries have launched unique poverty alleviation projects intending to easy approachability of economical Rural Credit (MF) for poor local agriculturists and financial assistance to country business visionaries for uplifting of their business processes. Rural Credit can be defined as a credit that is given to "poor" free from a guarantee, on easy installments, easily accessible 'as and when' required by the poor at their doorsteps (Bashir et al., 2010).

This study aims at rural finance and how it is used to reduce poverty in local farming in correspondence with the areas with the potential of growth but unable to do so because of the unattainability of financing in Pakistan. The government has taken rural credit to the public sector to distribute and mitigate poverty and expand the income level with the ultimate goal of reducing poverty. This research is focusing on elucidating the role and significance of Rural Credit and also classifies the needs of the poor farmers in backward rural areas of Pakistan. According to the study of (Mahajan & Ramana, 2004) about 60 to 70 percent of poverty-stricken people, are living in rural areas in evolving nations of the world and they are typically dependent on agribusiness as their earning source.

Agriculture lays the groundwork for developing countries of the world and this region has an ideal potential to support rural development and to moderate poverty (Zeller, 2003). Agricultural development has been related to poverty in rural areas of developing nations. (Colin et al., 2001).

The target area of this study was an area which is comprised of more than 50 small villages and about 200 years old, named as “Rurala” from Jaranwala tehsil, the Faisalabad District, Punjab, Pakistan, produces a great amount of sugarcane, maize products, rice, and wheat. “Rurala” as the name suggests is a very rural area of Faisalabad. Only 1 Rural Health Center is covering all 50 small villages and about 150 plus deaths are reported during childbirth in a single year due to poor healthcare conditions. Even there is a Primary School both for boys & girls in each village but the attendance and admission ratio are very low. Multiple private schools are also existing in the area but more than 50% of the total population, mostly the female is illiterate and poor. So that’s why researching this topic to be the real insight.

The objective of the current study is to investigate the impact of rural- agriculture credit of poverty reduction of poor people. Consequently, the investigation is meant to identify the effect of microfinance on poverty alleviation, Agriculture outputs, improvement in Household conditions, Social & Religious spending, improved Health care, women empowerments, improvements in women Health & skill making, improvement in women Education, improvement in Family health & life standers, Life safety and development of Business

2. Literature Review

God has gifted Pakistan with a four-season climate, a diligent labor workforce, enough water, highly fertile soil, and a good agricultural system that gives a great edge to the farmer as compared to farmers of other nations (Bashir & Azeem, 2008). Economic development and growth of Pakistan is largely depending upon its agriculture which is also considered as the backbone of the economy since its freedom (1947). This sector is contributing about 21% to GDP (Abdullah, 2015). The agricultural sector is also contributing a major role in industry development as this division is responsible for providing 75% of industrial raw materials. The agricultural sector contributes 61% to the export income, moreover, adds

employment to the workforce and increases GDP to 45.9% and 23.7% respectively (Pakistan, 2016-17). Cultivation is not a division just for the origin of nourishment and backbone of the 190 million individuals of Pakistan, additionally the real provider of the crude material and workforce to assembling and other all services segment. No technique of financial improvement can be acknowledged without economical and broad-based agriculture improvement.

Despite its significant importance for Pakistan's economy, the performance of this sector is very lethargic. The major contributors for this sluggish performance are lack of technological novelty, shyness of farmers in adopting the modern farming techniques, poor seed quality, pest and livestock diseases, marketing problems, poor logistics and last but not least is an inadequate sum of financial resources available to farmers (Maqbool & Bashir, 2009). To overcome the financial anomalies of people living in rural areas in Pakistan and to enhance productivity to improve living standards, several rural and agricultural development programs were introduced since the independence of this country like a rural worker development program, Tameer-a-Watan, Social action, Khushal Pakistan programs, etc. But all these programs were unable to get the desired outcomes due to lack of institutional structure, inappropriate management of funds, lack of follow-up, and improper research and appraisal of these programs (Maqbool & Bashir, 2009).

Income disparity and poverty are interrelated and both are the root cause of many socio-economic evils. Unfortunately, 80% of the total population is living in those countries where this income inequality is widening day by day (Khan & Sulaiman, 2015). According to the UN Development Program, 75% of the total income is with 20% population and the poorest countries which are more than 40% of the world population own just 5 % of the total world's income (Ravallion, 2010). There are many initiatives taken in the world to alleviate poverty, microfinance in one of those, which is considered as the most effective tool for the reduction of poverty and to enhance the community and economic settings of the poor people (Donaghue, 2004). Throughout the last two-three decades, a microfinance institution (MFIs) have attained significant attention worldwide especially in Pakistan after noble prize award to M. Younas, who has a great contribution in providing microfinance facilities to the poor without any hard terms and conditions like formal banks (Khan, 2010, 2011). Pakistan is facing a high level of poverty like all other developing countries. According to the Pakistan Economic Survey, there is a decline in poverty statistics from the last 20 years. Pakistan has taken significant initiatives for poverty alleviation like

(PISB) Pakistan Bait-ul-Mal, EOBI, Benazir Income Support Program, vocational training, zakat and small loans schemes, etc. (Khan et al., 2013). To form and furnish microfinance activities in Pakistan, there is an organization named as PPAF (Pakistan Poverty Alleviation Fund), which is founded as a self-governing body in 2000. The basic aim of PPAF is to cater to the requirements of microfinance in Pakistan. It is an extensive lender to the microfinance providing NGOs with an initial budget of 100 million dollars and one of the leading establishments that have wrought community and microcredit growth events in Pakistan. With the coordination of more than 130 partners, the PPAF provides its microfinance amenities in more than 130 districts across the whole of Pakistan. Till now approximately PPAF has made payments of Rs. 18 thousand million to more than 8.4 million people out of which 80% belong to rural areas and 60% are women (PPAF, 2017). In 2013, PPAF holds 44% of the total microcredit sector in Pakistan and there are more than thirty institutions providing microfinance facilities in Pakistan (Khan et al., 2013). In 2017 this ratio increased to 49% (PPAF, 2017).

To build up the rural population as energetic participants of the economy, various steps are required to get fruitful outcomes. There should be institutional reforms on a scientific basis so all the rural poor can get benefit from rural finance and other rural development programs. There is also a need for private-public partnerships to develop and promote agriculture-based rural industries to reduce rural unemployment and poverty. Steps should be taken to tackle the health and education of the rural population so they can be more healthy, educated, skilled, and productive for agri-business in particular and country economy in general (Maqbool & Bashir, 2009). To enhance the role of the private and non-governmental sector in rural development, in 2001 the government announces a microfinance policy through the Microfinance Ordinance to encourage the private microfinance sector. After that ordinance various microfinance banks are established like Tameer bank, FMFBL (First microfinance bank limited), Pak Oman, Rozgar (RMFBL), and Network (NMFBL) Micro Finance Bank limited, etc. (Khan et al., 2009).

In the credit market, microcredit has become a catchphrase and is considered as a most successful instrument in socio-economic development and poverty alleviation. However, its impact is still questioned and varies from country to country (Sameer et al. 2015). Microcredit is mostly known as the provision of a monetary credit to those poor people, having no collateral to get financial credit

through conventional banking services (Ledgerwood, 1998; Littlefield et al., 2003; Robinson & Marguerite, 2001). The fundamental reason behind extended microcredit services is that it enables poor people to contribute to the trade and industry. It also develops commercial opportunities for the start-up of a fresh business or to extend a prevailing one. As a result, it will allow them to fight against poverty and also fulfill their domestic requirements autonomously. Many studies recommend that there is a constructive and significant influence of microcredit on poverty alleviation as well as on family wellbeing (Aghion & Morduch, 2000; Armendáriz, 2005; Armendáriz & Jonathan, 2010; Hashemi et al., Riley, 1996; Littlefield et al., 2003; Roodman & Jonathan, 2009).

3. Research Methodology

Convenience sampling techniques is used to select the respondents. Data are collected by conducting 50 structured interviews on a self-designed structured questionnaire. For testing of research hypothesis logistic regression analysis is applied.

For a binary response variable Y and an explanatory variable (covariate) X , let $\pi(x) = P(Y=1/X=x) = 1 - P(Y=0/X=x)$. The logistic regression model is therefore

$$\pi_i = \frac{\exp(\sum_{j=1}^p \beta_j X_{ij})}{1 + \exp(\sum_{j=1}^p \beta_j X_{ij})}$$

is regarded as a function of the two regression parameters (the intercept, β_0 , and the regression parameter for X , β_1). The response variable is either binary or dichotomous in the above-expressed model. One of the two possible values can be taken by the individual either 0 or 1. Observations of this nature arise, for instance, an individual has either been promoted ($Y=1$) or has not ($Y=0$) in the annual staff promotion exercise. We may then define $\Pr(Y=0) = 1 - \pi$ and $\Pr(Y=1) = \pi$ for the probabilities of 'failure' and 'success' respectively. This analysis aims to find the most practical and best-fitting model to explain the relationship between response and independent explanatory variables.

Research Hypothesis

H1: There is a constructive significance association between microcredit and poverty alleviation

H2: There is a positive significant relationship between microcredit and Agriculture outputs

H3: There is a positive significant relationship between microcredit and improvement in Household conditions

H4: There is a constructive significance association between microcredit and Social & Religious spending

H5: There is a positive significant relation between microcredit and improved Health care

H6: There is constructive significance association between microcredit and women empowerments

H7: There is a positive significant relationship between microcredit and improvements in women Health & skill making

H8: There is constructive significance association between microcredit and improvement in women Education

H9: There is constructive significance association between microcredit and improvement in Family health & life standers

H10: There is constructive significance association between microcredit and Life safety

H11: There is constructive significance association among microcredit and Development of Business

Table 1: Regression Weights and Test of Fitness

	Regression Wt.		Tests of Model Fitness	
	Score	Sig.	Chi-square	Sig.
Relationship between poverty alleviation and microcredit	28.223	.000	28.890	.000
Relationship between microcredit and agriculture output	20.930	.000	21.088	.000
Relationship between microcredit and household conditions	38.267	.000	51.917	.000
Relationship between Religious & social spending and microcredit	40.602	.000	43.625	.000
Relationship between women health and skill making microcredit	24.490	.000	24.846	.000
Relationship between women empowerment and microcredit	32.143	.000	33.289	.000
Relationship between women skills making and health and microcredit	36.112	.000	47.944	.000
Relationship between women education and microcredit	14.286	.000	14.259	.000
Relationship between family health and living standards and microfinance	24.490	.000	24.846	.000
Relationship between the development of business and microcredit	28.223	.000	28.890	.000
Relationship between safety measures/precautions and microcredit	35.000	.000	47.111	.000
Relationship between an increase in assets and microcredit	28.223	.000	28.890	.000

4. Empirical Results

The results illustrate in table 1 reveal that microcredit has a constructive impact on overall poverty mitigation of poor people as the overall model is statistically significant having Chi-square value 28.890, and $P < 0.05$. Further, the results reveal that microcredit has a significant relation with agriculture output with an overall statistically significant model having a Chi-square value of 21.088, and $P < 0.05$. Moreover, the results indicates that there is a positive relation between

micro credit and improvement in household conditions, (Chi-square 51.917, $P < 0.05$), constructive significant association between Social & Religious spending and microcredit (Chi-square 43.625, $P < 0.05$), positive significant association between micro credit and improved health care (Chi-square 24.846, $P < 0.05$), positive relationship is found between micro credit and women empowerment (Chi-square 33.289, $P < 0.05$), constructive association between women skill development and microcredit (Chi-square 47.944, $P < 0.05$), positive significant association between micro credit and improvement in women education (Chi-square 24.846 and $P < 0.001$), positive significant association between family health & living standards and microcredit (Chi-square 24.846, $P < 0.05$), positive significant association between micro credit and development of businesses (Chi-square 28.890, $P < 0.05$), positive significant association between life safety measure and microcredit (Chi-square 47.111, $P < 0.05$) and there is also constructive association between micro credit and increase in assets (Chi-square value 28.890, $P < 0.05$).

5. Conclusion

In order to investigate the relationship between rural credit and solution of some major problems of rural people (poverty alleviation, agriculture output, household conditions, social & religious spending, improved health care facilities, women empowerment, women health, education and skills development, improvement in family health & life standers, business development, improvement in life safety measures and increase in assets), different research hypotheses are formulated and tested to investigate these relationships. In the light of results, it can be said that rural credit or microfinance play an important part in the accomplishment of basic human needs, affirmative change in living standards, an increase in employment and an overall reduction in poverty. The study finds strong and significant relationships between rural credit and poverty alleviation through increase in agricultural outputs, improvement in household conditions, enhancement in purchasing power, improvement in health care facilities, women empowerment, developments in women skill making & health, improvement in women education, enhancement in family health & life standards, business development, improvement in overall assets and life safety measures. Based on this study, we can say that by using rural-credit or microfinance services, rural poor can fulfill their basic needs and can diminish their poverty levels.

References

- Abdullah, D. Z. (2015). Agricultural Credit in Pakistan: Past Trends and Future Prospects. *Journal of Applied Environmental and Biological Sciences*, 5(12), 178-188.
- Aghion, A. d., & Morduch, J. (2000). Microfinance beyond group lending. *Economics of Transition*, 8(2), 401–20.
- Andrews, M. (2006). *Microcredit and Agriculture: How to Make it Work*. Canada: Mennonite Economic Development Associates (MEDA).
- Armendáriz, & M. (2005). *The Economics of Microfinance*. MIT Press: Cambridge.
- Armendáriz, Beatriz, & Jonathan, M. (2010). *The Economics of Microfinance*. United States of America: Library of Congress Cataloging-in-Publication Data.
- Bashir, M. K., & Azeem, M. M. (2008). Agricultural Credit in Pakistan : Constraints and Options. *Pakistan Journal of Life and Social Sciences*, 47-49.
- Bashir.K.M, A. K., Bashir, K., Amin, A., & Khalid, N. (2010). Micro-credit and Poverty Alleviation in Pakistan. *World Applied Sciences journal*, 8(11), 1381-1386.
- Colin, T., Xavier, I., Lin, L., Victoria, M.-H., & Wiggins, S. (2001). *The Relationship Between Changes in Agricultural Productivity and the Incidence of Poverty in Developing Countries*. DFID Report No.7946 .
- Donaghue, K. (2004). Microfinance in the Asia Pacific. *Asian-Pac Econ Literature* , 18(1), 41-61.
- Gateway, M. (2018). *RURAL AND AGRICULTURAL FINANCE: GLOSSARY*. Retrieved March 17, 2018, from Microfinance Gateway: <https://www.microfinancegateway.org/rural-and-agricultural-finance-glossary>
- Hashemi, S. M., Schuler, S. R., & Riley, A. (1996). Rural Credit Programs and Women's Empowerment in Bangladesh. *World Development*, 24(4), 635-653.
- Khan Z, A. Y. (2011). Cooperative Microfinance Myth or Reality: an Economic Analysis of the Welfare of the Marginalized Segments.In: 8th International Conference on Islamic Economics and Finance. Qatar Foundation, Doha, Qatar. Doha, Qatar: Qatar Foundation.
- Khan, S. S. (2009). *Rural Finance Policy in Pakistan; Its Scope, Sources and Implications for the Microfinance Sector*. Pakistan Micro Finance Network. Islamabad: Pakistan Microfinance Network.

- Khan, Z. (2010). Commercial versus Cooperative Microfinance Program: an Investigation of Efficiency, Performance and Sustainability. (2010) Commercial versus Cooperative Microfinance Program: an Investigation of Efficiency, Performance and Sustainability. *Dialogue*. 5(2), 1819-6462.
- Khan, Z., & Sulaiman, J. (2015). *Poverty Reduction Policies and Practices in Developing Asia*. Atlanta USA: Springer International Publishing AG.
- Khan, Z., Sulaiman, J., & Ibrahim, M. S. (2013). *Social Safety Nets and Sustainable Economic Development: a Theoretical Perspective with reference to Pakistan Economy*. *Dialogue*.
- Ledgerwood, J. (1998). *Microfinance handbook: An Institutional and Financial Perspective*. . Washington: World Bank.
- Littlefield, Elizabeth, Murdugh, J., & Hashemi, S. (2003). *Is Microfinance an Effective Strategy to Reach the Millennium Development Goals?*
- Mahajan, V., & Ramana, N. (2004). *Agricultural Finance by Microfinance Institutions Problems and the Way Forward* . Geneva: UNCTAD.
- Maqbool, A., & Bashir, K. M. (2009). *Rural Development in Pakistan: Issues and Future Strategies*.
- Mofolo, L. (2018). *Financing Agriculture for a more Profitable Rural Economy*. Value chain finance series.
- Mohan, R. (2006). *Agricultural Credit in India: Status, Issues and Future Agenda*. *Money, Banking and Finance*, 41(11), 1013-1023.
- Pakistan, G. o. (2016-17). *Economic Survey of Pakistan*. Retrieved from Ministry of Finance.
- PPAF, P. P. (2017). *2017 Annual Report; Pakistan Poverty Alleviation Fund*. Islamabad: Pakistan Poverty Alleviation Fund. Retrieved March 31, 2018, from Pakistan Poverty Alleviation Fund: www.ppaf.org.pk
- Ravallion, M. (2010). *Do Poorer Countries have less Capacity for Redistribution?* *J Globalization Dev.*, 1(2).
- Robinson, & Marguerite. (2001). *The Microfinance Revolution Sustainable Finance for the Poor*. Washington, USA: World Bank.
- Rome, A., Maxwell, S., & FOA. (2001). *Rethinking Rural Development*. *Development Policy Review*, 19(14), 395-425.

- Roodman, D., & Jonathan, M. (2009). *Impact of Microcredit on the Poor in Bangladesh: Revisiting the Evidence*. Washington: World Bank.
- Samer, S., Majid, I., Rizal, S., Muhamad, M. R., Halim, S., & Rashid, N. (2015). The Impact of Microfinance on Poverty Reduction: Empirical Evidence from Malaysian Perspective. *Procedia - Social and Behavioral Sciences*, 721-728.
- Statistics, W. P. (2017). *World Poverty Statistics*. Retrieved from World Poverty Statistics: www.worldpovertystatistics.com
- Zeller, M. (2003). *Models of Rural Finance Institutions; Paving the Way Forward for Rural Finance: An International Conference on Best Practices*. Washington USA: The World Bank Agriculture And Rural Development Department.